

August 15, 2012

To the Board of Selectmen
Town of Newton, New Hampshire

In planning and performing our audit of the financial statements of the governmental activities, the major fund, and the aggregate remaining fund information of the Town of Newton, New Hampshire for the year ended December 31, 2011, we considered the Town's internal control structure to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control structure.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding these matters. We previously reported on the Town's internal control structure in our report dated August 15, 2012. This letter does not affect that report or our report on the basic financial statements dated August 15, 2012.

We have already discussed these comments and suggestions with various Town personnel, and we will be pleased to discuss them in further detail at your convenience, to perform additional study of the matters, or to assist you in implementing the recommendations.

The purpose of this letter is to provide constructive and meaningful recommendations to you.

Sincerely,


Vachon Clukay & Company PC

REDEMPTION NOTIFICATION

Observation

We noted that the tax collector's office did not notify the register of deeds of tax redemptions within the proper time frame required by State law.

Implication

The Town is not in compliance with State law. Per RSA 80:33, the tax collector is to notify the register of deeds of any tax redemptions within thirty days of the redemption of tax liens. The failure to notify the register of deeds in a timely manner could create future problems should the property ownership be transferred.

Recommendation

We recommend that the tax collector's office promptly forward tax lien release notices to the register of deeds to comply with State law.

PAYROLL FORMS

Observation

During our review of the various employee records, we noted several instances in which there was an incomplete or missing I-9 Form (Employee Eligibility Verification Form) for employees when initially hired. These employees haphazardly selected for testing were then requested to provide the required documentation during the audit process.

Implication

The controls over payroll are weakened as the Town is not in compliance with federal regulations.

Recommendation

We recommend that the Town require all new employees to complete the Form I-9 and to submit the proper identification required for the Form I-9 prior to receiving their first pay check. The Town may also wish to implement an internal procedure to select a sample of personnel files on a periodic basis to ensure that the required federal forms are on file and have been properly completed.

FUND BALANCE POLICY

Observation

Per inquiry, the Town has not adopted a fund balance policy. In accordance with GASB Statement #54, the Town is recommended to adopt a policy to formally designate who has the authority to commit or assign any fund balance at year end.

Implication

Without a formally adopted fund balance policy, the classification of fund balance at year end may not be reported within the financial statements as intended by the Town.

Recommendation

We recommend that the Town consider establishing and formally adopting a fund balance policy. Additional items should be addressed within the fund balance policy such as a spending prioritization policy and the Town's policy regarding any deficit fund balance in other governmental funds. As a member of the Local Government Center, the Town has access to many sample policies that have been drafted by other governmental organizations.

**REPORT ON INTERNAL CONTROL BASED ON
AN AUDIT OF BASIC FINANCIAL STATEMENTS**

To the Board of Selectmen
Town of Newton, New Hampshire

In planning and performing our audit of the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Town of Newton, New Hampshire (the Town) as of and for the year ended December 31, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the Town's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the Town's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies in the Town's internal control to be material weaknesses:

GENERAL FUND ACCOUNTING

Observation

The Town's General Fund is the main operating fund of the Town. The Town essentially maintains its accounting system on a "cash basis". However, the cash balance reflected on the bank reconciliations is not reconciled to the cash balance per the Town's general ledger. We were able to reconcile the general ledger cash balance within an immaterial amount of the Treasurer's reconciled cash balance at year end.

Audited financial statements are presented in accordance with generally accepted accounting principles for governmental units. As auditors, we proposed approximately thirty entries to the Town's general

fund accounting system. While some of these are normal entries that auditors propose in a routine audit, many of these adjustments reflect deficiencies in the current accounting system that need to be addressed.

Implication

Controls over the financial activities of the Town are weakened. The failure to reconcile the activity throughout the year increases the risk that errors may occur and remain undetected. In addition, the Board of Selectmen is making financial decision based upon inaccurate financial information.

Recommendation

The Town needs to take immediate steps to improve its internal accounting to more accurately reflect generally accepted accounting principles. We continue to recommend that all balance sheet accounts be reconciled on a monthly basis to detect any errors or omissions in a timely fashion. Any discrepancies should be identified and properly adjusted. It is essential that the Town's financial office personnel review the quantity and nature of the 2011 adjustments proposed by the auditors for the purpose of eliminating the need for such adjustments in the future.

SEGREGATION OF DUTIES

Observation

The Town has a general ledger accounting system, which has the capabilities to account for the activity of more than one fund. During the year ended December 31, 2011, the town's bookkeeper did establish several new funds within the accounting system and some activity was recorded, but none of these funds had been reconciled to ensure that all activity was properly recorded. Essentially, only the activity in the General Fund is currently being actively recorded in the accounting system.

The Town's Treasurer is the authorized signature on various bank accounts in addition to those reported in the Town's General Fund. These additional accounts have been earmarked to account for the activity of the following: Recreation Commission, Conservation Commission, Transfer Station Recycling, Police Forfeiture Funds, Police Special Details, Food Pantry, Ambulance, Planning Board accounts, and Impact Fees. The only complete reporting of these funds is still being maintained by the Treasurer.

Implication

Controls over the financial activities of the Town are weakened as the accounting system is not being utilized to record all of the financial activity of the Town. The Town may not be in compliance with the accounting requirements of State laws and regulations. Additionally, there is no proper segregation of duties pertaining to these other bank accounts. The current procedures place sole reliance on the Treasurer to deposit monies, write checks, reconcile the bank accounts, and maintain a complete record of the activity.

In accordance with the State's regulations for "Financial Accounting for Cities and Towns" (Rev 1700), Special Revenue Funds are to account for the specific revenue sources that are legally restricted to expenditure for specified purposes. In addition, agency funds are to account for assets held by the Town for individuals.

Recommendation

We urge Town officials to fully utilize the accounting system. Steps were taken during 2011 to add additional funds within the general ledger. However, without any reconciliation procedures in place, the information within the computer is meaningless. Accordingly, we recommend that the general ledger balances in all funds be reconciled on a monthly basis to detect any errors or omissions. This will ensure an accurate financial position of the Town will be available upon which the Selectmen and authorized Commissions may make sound business decisions.

We also identified certain deficiencies in internal control that we consider to be significant deficiencies, and communicated them in writing to management and those charged with governance on August 15, 2012. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

This communication is intended solely for the information and use of management and the Board of Selectmen and is not intended to be and should not be used by anyone other than these specified parties.

Uachan Chukay & Company PC

August 15, 2012